

SEPARATION

BENEFITS



**Department of Employee Trust Funds
P. O. Box 7931
Madison, WI 53707-7931**

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Before You Apply for a Separation Benefit

Please read this brochure carefully. It provides important information about your benefit rights.

Before you apply, you should carefully consider the consequences of taking a separation benefit. By taking this benefit you forfeit the matching employer-required contributions and any future benefits based on the creditable service earned prior to your separation benefit. All benefit rights associated with that period of service are forfeited. If you defer taking a benefit until age 55 (50 if a protective category employee), you will be entitled to a retirement benefit based on both the employee-required and matching employer-required contributions plus accumulated interest, unless you were first employed after 1989, terminated employment before April 24, 1998, **and** have service in less than five calendar years.

Note: If you are an alternate payee of a participant's Wisconsin Retirement System (WRS) account pursuant to a Qualified Domestic Relations Order (divorce), please refer to page 9 of this booklet.

Terminating due to a Disability

If you terminate WRS employment due to a disability, you should contact the Department about eligibility for disability benefits before you apply for a separation benefit. Once you have closed your account by taking a separation benefit, you are no longer eligible for disability benefits payable from the WRS.

Benefit Eligibility

You are eligible for a separation benefit if you are *terminated* (i.e., your employer has reported a termination date to the Department) from **all** WRS covered employment with **all** WRS participating employers and you are:

- Under age 55 (under age 50 if a protective category employee); or

- Age 55 or older (age 50 or older if a protective category employee), **and** you began covered WRS employment after 1989, terminated employment before April 24, 1998, **and** have service in less than five calendar years on your WRS termination date.

Covered employment includes qualifying employment with any employer who participates in the WRS. Participating employers include all Wisconsin state agencies and most local governmental employers. Non-teaching employment with the City and County of Milwaukee is not covered under the WRS.

Applying for a Benefit

If you want to apply for a separation benefit, simply request an application from this Department. No payment will be made unless this Department receives a properly completed application form.

Your application must be received in this Department before your (or the participant's, if you are an alternate payee) 55th (50th for protectives) birthday.

It will be 60 days or less after the date we receive your application until your check is mailed. Processing time varies, depending on the volume of applications and when we receive the report of termination and final earnings from your employer. You may check with your employer if you want to determine the status of the final earnings report.

Benefit Amount

The benefit will include:

- 1) All employee-required contributions, whether deducted from earnings or paid by the employer as a fringe benefit;
- 2) All additional contributions, if any; and
- 3) Accumulated interest to the January 1 preceding the date that your separation benefit is approved. If you terminated WRS employment prior to May 16, 1989, your benefit will also

include prorated 5% annual interest from January 1 until the end of the month prior to the month in which your benefit is approved.

There is no provision for partial separation. You cannot withdraw a portion of your required or additional account. However, if you have additional contributions, you may withdraw only the additional contributions and leave the required contributions to a later date.

Since January 1, 1986, a benefit adjustment contribution has been collected for teachers, general employees, protectives covered by Social Security, judges, elected officials and state executive retirement plan employees. This contribution is not included in your separation benefit nor any other benefit based on the contributions in your account. It is used to fund improved formula retirement benefits.

Annual interest on fixed fund contributions and net gains or losses on variable fund contributions are credited on monies which have been in the system for a full year. Variable employee-required and all additional contributions have interest credited at the actual effective rates, based on the investment experience of the fund. Depending on the years you were employed under the WRS, the amount of interest credited to your fixed employee-required contributions may vary.

- All active employees, as of December 31, 1999 and later, will receive interest on fixed employee-required contributions at the effective rate.
- All contributions of participants employed prior to 1982 have interest credited at the effective rates.
- As of January 1, 1985, employees who were first employed after 1981 and who terminated prior to January 1, 1990, receive 5% annual interest on fixed employee-required contributions. If however, these participants come back to covered employment, annual interest on their fixed employee-required contributions will be credited at the effective rate on December 31, 1999 balances forward.

- As of January 1, 1990, employees who were first employed after 1981 **and** who terminated prior to December 31, 1999 receive 3% annual interest on fixed employee-required contributions for separation benefit purposes. If however, these participants come back to covered employment, the interest credited to their fixed employee required contributions since January 1, 1990 will be increased from 3% to 5%. The annual interest on their fixed employee-required contributions will also be credited at the effective rate on December 31 balances of the year they return to covered employment forward.

Tax Liability

Any amount received by you as a separation benefit and not actually contributed by you is subject to federal and state income tax for the year in which payment is issued. There is an additional federal tax on separation benefits paid prior to age 59½ (unless you terminated your covered employment in the year you reached age 55 or later). This tax is equal to 10% of the portion of the withdrawal which is includable as gross income. If you are subject to the additional federal tax, there is also a State of Wisconsin tax which equals 33% of the amount of the federal tax.

If tax-deferred additional contributions are withdrawn, the entire amount is reportable as income in the year payment is issued.

Information for your tax reporting is sent with your benefit payment. We suggest you contact the Internal Revenue Service (IRS) or your tax consultant for instructions on proper income tax reporting.

Federal law requires the Department of Employee Trust Funds to withhold 20% of the taxable portion of your payment as federal income tax unless you elect to directly roll over the taxable portion of your payment into an eligible employer plan or a traditional IRA. Exceptions: Benefits of less than \$200 cannot be rolled over and the 20% mandatory withholding does not apply. Also, if you take a benefit in the year you reach age 70½ or later, a portion of your benefit is a required minimum distribution under federal law (see

the SPECIAL NOTICE below). Federal withholding is optional on the required minimum distribution amount; the mandatory withholding applies only to the portion of your benefit in excess of that amount. The required minimum distribution amount cannot be rolled over.

SPECIAL NOTICE (Applies only if you are age 70½ or older and terminated from all covered WRS employment.)

Federal law requires you to receive a minimum distribution amount from your account starting for the year you reach age 70½. If you did not receive the required minimum distribution amount during your 70½ year, you must receive that amount by April 1 of the following year. If you fail to meet the minimum distribution requirement, you may be subject to substantial federal taxes as penalty. Contact the IRS or your tax consultant for further information about this requirement.

Survivor Benefits

In the event of your death before you apply for a benefit, a death benefit is payable to your beneficiary(ies). Death benefit payments will be made to the beneficiaries named on your most recent beneficiary designation form on file in this Department. If you have not filed a designation form, payment is made according to statutory standard sequence.

Beneficiary designations may be changed or updated at any time by requesting a form from this Department or by downloading one from our Internet site, etf.wi.gov.

Canceling Your Application

You can cancel your separation application by submitting a signed written request to the Department of Employee Trust Funds. The Department must receive your written cancellation request no later than the day before the date of your check. Application cancellation requests received on or after the date of the check cannot be honored and your separation will stand as paid.

If you die before your separation benefit check is issued, your application is automatically cancelled.

Availability of Additional Contributions After Termination

If you have made additional contributions to your account, such contributions can be paid in one of the following options:

- As a lump sum at any age
- As an annuity certain at any age
- As a life annuity after age 55 (50 for protectives)

An annuity certain is a specific dollar amount paid monthly for a specified period of time, from 24 months to 180 months.

If you take an annuity certain for a period of less than ten years, federal law requires that we withhold 20% of the taxable portion of your payments as federal income tax unless you elect to directly roll over the taxable portion of your payments into an eligible employer plan or a traditional IRA. Exception: If your annuity certain begins in the year you reach age 70½ or later, a portion of your benefit is a required minimum distribution under federal law (see the SPECIAL NOTICE on page 5). Federal withholding is optional on the required minimum distribution amount; the mandatory 20% withholding applies only to the portion of your benefit in excess of that amount. The required minimum distribution amount cannot be rolled over. Information and forms for a direct rollover are provided with the application for an annuity certain or a separation benefit.

Reemployment After Payment of a Separation Benefit (Does not apply to alternate payees)

Your application will be canceled if you are reemployed or reinstated as a WRS participating employee within 30 days after we receive your application (or after your termination date, if later). If you are paid in error, you are required to repay your benefit.

Upon reemployment after payment of a separation benefit, your account is treated as if you were new in the WRS for all programs, such as life insurance, health insurance and income continuation

insurance. State employees are eligible for the state share of premiums six months after being rehired.

If you are reinstated to your former position after a contested dismissal, you may be required to repay the benefit plus interest, depending on the specific wording in the court order, arbitration award, or compromise settlement.

Purchasing Forfeited Service (Does not apply to alternate payees)

If you again become a participating employee under the WRS, you are eligible to purchase the service forfeited by payment of a separation benefit provided that you meet the requirements in effect at that time. The cost is based on your three highest annual earnings at the time you purchase the forfeited service.

Deferring Your Benefit Application

If you leave your contributions in the WRS, they will receive annual interest. Once you (or the participant, if you are an alternate payee) reach age 55 (50 for protectives), you are eligible for retirement benefits unless you were first employed after 1989, terminated employment before April 24, 1998 **and** have service in less than five calendar years.

If you are required to meet the vesting requirement, have service in less than five years and are consequently eligible only for a separation benefit, you can leave your contributions in the WRS and return to work at a later time. If you subsequently return to WRS covered employment after April 23, 1998, when you terminate you will be eligible for retirement benefits at age 55 (50 for protectives). See the Retirement Benefits section on page 8 for further information.

If you intend to defer your application until you are eligible for a retirement benefit, it is advisable to contact us at least once every seven years to ensure that you do not lose your benefit rights.

Be sure to notify us of any change in your address. You will receive a *Statement of Benefits* annually if you keep the Department informed of your current mailing address.

Retirement Benefits

If you (or the participant, if you are an alternate payee) are over 55 (50 for protectives) and were first employed after 1989, terminated employment before April 24, 1998 **and** have service in at least five calendar years, you may apply for a retirement annuity. If you are over age 55 (50 for protectives) and you were first employed before 1990, or were actively employed on April 24, 1998, or were first employed after April 23, 1998, you do not need to meet a vesting requirement to be eligible for a retirement benefit. The retirement annuity is the larger of a formula annuity or an annuity that can be purchased by employee-required and matching employer contributions plus accumulated interest.

If your *For Annuitant's Life Only* monthly annuity option is \$139 or less in 2003, you will receive a lump sum payment representing the "present value" of this option.

If the monthly annuity is more than \$139 but less than \$281 in 2003, you may choose either a lump sum payment (present value) or a monthly annuity.

If the monthly annuity is \$281 or more in 2003, you must receive monthly annuity payments. You are not eligible for a lump sum payment.

Note: The \$139 and \$281 amounts will increase annually.

Out-of-State Credits

If you are planning to use Wisconsin service for credit in a retirement program in another state, it is advisable to check with the other state's system before applying for a benefit under the WRS. In some states, in order to receive credit for Wisconsin service, part or all of your Wisconsin benefit must be waived.

Alternate Payees

If you are an alternate payee of a participant's WRS account, based on a Qualified Domestic Relations Order that awarded a percentage of that participant's account to you, you are eligible for a separation benefit until the participant reaches age 55 (50 for protectives), regardless of your own age. An alternate payee can apply for a benefit even if the participant is still employed under the WRS. Once the participant reaches age 55 (50 for protectives), you are eligible for a retirement benefit based on both the employee and matching employer contributions unless the participant began employment after 1989, terminated employment before April 24, 1998 **and** has less than five years of service.

Before applying, you should carefully consider the consequences of taking a separation benefit. By doing so you are forfeiting a minimum of matching employer contributions plus accumulated interest that would also be available to fund your retirement benefit when the participant reaches age 55 (50 for protectives).

If you have an account based on your own employment under the WRS and are also an alternate payee of another WRS participant, your benefit eligibility will be different for the two accounts. Each account is separate and the accounts cannot be combined. You can apply for a separation benefit from your alternate payee account regardless of whether you are still employed under the WRS. Taking a separation benefit from your alternate payee account will have no effect on your own WRS account.

If you take a separation benefit as a participant and also as an alternate payee, you will forfeit the creditable service from each account. If you return to covered WRS employment and meet current requirements, you will be eligible to purchase the creditable service forfeited from your own WRS account. You will **not** be able to purchase the forfeited alternate payee creditable service.

The Department's booklet, *How Divorce Can Affect Your WRS Benefits*, explains in detail the benefit options for which an alternate payee is eligible.

Great effort has been made to ensure that the information in this circular is accurate. If the information in this circular should conflict with the law, the law must be followed.

ALWAYS INCLUDE YOUR NAME, SOCIAL SECURITY NUMBER, AND DATE OF BIRTH ON ALL CORRESPONDENCE TO THIS DEPARTMENT.

The Department of Employee Trust Funds does not discriminate on the basis of disability in the provision of programs, services or employment. If you are speech, hearing or visually impaired and need assistance, call 1-877-533-5020 or (608) 266-3285 (local Madison) or TTY (608) 267-0676. We will try to find another way to get the information to you in a usable form.

Contacting the Department of Employee Trust Funds

Self-Service Toll-Free Telephone Services

Available 24 hours a day, seven days a week. You must have a touch-tone telephone to use these systems.

SELF-SERVICE LINE: Call 1-877-383-1888 or (608) 266-2323 (local Madison) to request forms and brochures. Wisconsin Retirement System annuitants may also change their home mailing address or tax withholding election through this self-service line.

TELEPHONE MESSAGE CENTER: Call 1-800-991-5540 or (608) 264-6633 (local Madison) to hear detailed recorded messages covering a variety of Wisconsin Retirement System topics.

Note: *You will not be able to talk to a "live" person using these systems. To speak to a benefits specialist, call the telephone numbers listed below.*

To Visit our Internet Site

Access the Internet site at etf.wi.gov for a tremendous amount of information regarding the Wisconsin Retirement System and other benefit programs. You may e-mail the Department through this site.

To Call During Office Hours

Office Hours: 7:45 a.m. to 4:30 p.m., Monday through Friday
(except holidays)

Toll Free: 1-877-533-5020

Madison: Main Line: (608) 266-3285
To make an appointment: (608) 266-5717
TTY (Teletypewriter for hearing & speech impaired):
(608) 267-0676

Milwaukee: To make an appointment: (414) 227-4294

To Write Us

Department of Employee Trust Funds
P.O. Box 7931
Madison, WI 53707-7931

To Visit Us

(An appointment is recommended)

Madison: 801 West Badger Road

Milwaukee: 819 North Sixth Street, Room 550